
General Fund Financial Forecast 2005-2010

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October 12, 2004

Agenda

- Recap summer discussions
- Review Mayor's 2005/06 Budget Proposal
- Evaluate Six-Year Financial Forecast
- Examine options available to close fiscal gap

Recap of Summer Discussions

- City expects to live within its means through 2004
- Operating expenses growing faster than revenues
- Four distinct paths to balance the budget
 - Authorize additional revenues
 - Reduce level of City services
 - Revise Council fiscal policies
 - Combination of above
- Mayor and Council reached an agreement in principle to balance the 2005-06 budget

City Expects To Live Within Its Means In Current Biennium

	2003-04 <u>Budget</u>	2003-04 <u>Est. Actuals</u>
Revenues	\$106.7	\$103.2
Expenditures	<u>\$106.7</u>	<u>\$102.1</u>
Surplus/(Deficit)	-	\$1.1*

*Note: Surplus carried over into 2005-06 Biennium and used for one-time expenses

Actions Taken To Live Within Means

- Salary and benefit cost containment measures
 - Implemented market-based compensation to align salaries and benefits with the market
 - Cut 11.7 FTEs in 2003-04
 - Filled vacancies only when absolutely necessary
 - Negotiated and implemented premium cost sharing

- Operating cost reductions (2000-2004)
 - Reduced overtime expenses by 21%
 - Reduced contractual/consultant services by 50%
 - Reduced operating supplies by 17%, despite increased costs from the City's suppliers

Operating Expenses Growing Faster Than Revenues

Change in GF Revenues and Expenditures between 2000 and 2004

	Cumulative Growth	Average Annual Growth
Revenues	1.8%	.45%
Expenditures	10.4%	2.5%

Measure of Comparison:

Inflation	9.0%	2.2%
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Mayor And Council Agreement

- More time needed to develop long-term financial plan for the General Fund
- Use up to \$3M of \$3.3M economic contingency
- Commitment to look at new revenues
- No significant reductions in levels of service

Mayor's 2005-06 Budget Proposal

- Is consistent with agreement reached in principle with Council

- Uses \$1.5M of economic contingency (one time revenues)
 - Remaining \$1.8M continues to be held as a hedge
- Includes a 1% increase in the City's portion of the property tax that will generate \$220,000 over the biennium.
- Proposes new ongoing revenues of \$3.5M* (yet to be identified)
 - Choices
 - Adjust business license fee by inflation (\$2.0M/biennium)
 - Increase utility tax rate from 5.5% to 6% (\$1.4M/biennium)
 - Tap banked capacity (\$1.4M)
 - Ask voters to approve property tax levy lid lift – current rate \$1.31/\$1,000AV; Maximum rate \$3.10 (\$15.7M in 2006)
- Reduces expenses without major reductions in service levels (\$1.8M/biennium; 6.7FTEs)

* Note: Reflects additional revenue needed to fund PERS/LEOFF rate increases which were received too late to include in the 2005-06 budget.

General Fund's Six Year Forecast

Purpose:

- To continue to lay a foundation for a long-term financial plan by:
 - ❑ Determining the City's ability to pay for general government services (fire, police, parks, etc) over the next 6 years
 - ❑ Reviewing options available to close the fiscal gap

Fiscal and Operational Challenges

- Economic Environment
 - When will recovery take hold and how strong will it be?
- Costs of servicing a growing community outpacing City revenues
- Regional services
- Streamlined Sales Tax legislation

Economic environment

When will recovery take hold and how strong will it be?

- Major factors affecting the economy
 - Consumer spending
 - The job market
 - Rising oil prices
 - War
 - Elections
- Unemployment rate is improving
 - However there are concerns about the number and quality of jobs being added

What's Happening In Redmond

- Expecting a modest recovery in 2005
 - Microsoft and Boeing hiring
 - Microsoft plans to hire up to 3,000 new employees in Puget Sound
 - Boeing announced plans to hire up to 3,000 new employees
- Commercial development activity remains low
- Businesses continue to find Redmond attractive

Major Cost Drivers

- Wages forecasted to rise on average 3.5% per year based on trends (should not be construed as City's bargaining position)
- Benefits one of the fastest rising cost centers
 - Medical claim costs expected to rise on average 12% per year
 - City continues to negotiate premium cost sharing
- PERS/LEOFF rates increasing effective July 1, 2005
 - Estimated General Fund impact: \$1.0M in 2005-06 and fully funding at \$1.5M each biennium thereafter

Major Cost Drivers

■ City Hall

- ❑ Additional funding of \$350,000 annually for City Hall beginning in 2006 per conceptual funding plan
- ❑ Total City Hall lease payment is \$3.2 million per year

Major Cost Drivers

- Continued compliance with City fiscal policies
 - General Fund Operating Reserves increased from \$4.1M to \$4.9M to restore to 10% level
 - Transfers to CIP maintained at:
 - 5% of General Fund revenues: \$5.4/biennium
 - \$2.2M/biennium from sales tax on construction
 - Maintains transfers to Equipment Replacement Reserves: \$2.5M/biennium

Major Cost Drivers

■ Regional Services

- Assumes continued contracting with NE District Court through 2006

- City evaluating future options

□ Jails

- Costs expected to rise from \$1.2M in 2003-04 to \$1.7M by 2009-10, or over 40% over forecast period due to jail capacity commitments and inmate medical costs

- Assumes continuation of pool contract with NW Center

Major Cost Drivers

- Additional staffing to maintain current service levels
 - Anticipates a minimum of 6FTEs each biennium for a total of 12 over forecast period (each FTE = \$160,000/biennium)
- Fire Station #17
 - City needs to decide how to staff station
 - Staff with aid car unit only – need 8FTEs at a cost of \$1.8M/biennium
 - Full staffing with 12 firefighters = \$2.6M/biennium

Major Revenue Assumptions

- New ongoing revenue: \$3.5M/biennium
 - Choices
 - Adjust business license fee by inflation (\$2.0M/biennium)
 - Increase utility tax rate from 5.5% to 6% (\$1.4M/biennium)
 - Tap banked capacity (\$1.4M)
 - Ask voters to approve property tax levy lid lift – current rate \$1.31/\$1,000AV; Maximum rate \$3.10 (\$15.7M in 2006)
- Economic Contingency: \$1.5M
 - Remaining balance of \$1.8M held as a hedge against future economic weakness
- 1% increase in the City's portion of the property taxes that totals \$220,000 over the biennium

Major Revenue Assumptions

- Sales tax growth: 5%/year
 - No fiscal impact from Streamlined Sales Tax legislation
- Property Taxes: Increase 1% per year plus new construction of \$250,000 annually
- Growth in utility tax revenue of approximately 3% per year
- Assumes continued contracting with Fire District #34
 - No impact from termination of Sammamish/EFR contract

Major Revenue Assumptions

Outstanding Issue

- Streamlined Sales Taxes (SST)
 - Will be reintroduced by the State in 2005 legislative session
 - No compromise reached between cities
 - City continues to lobby for full mitigation and concurrency with federal legislation

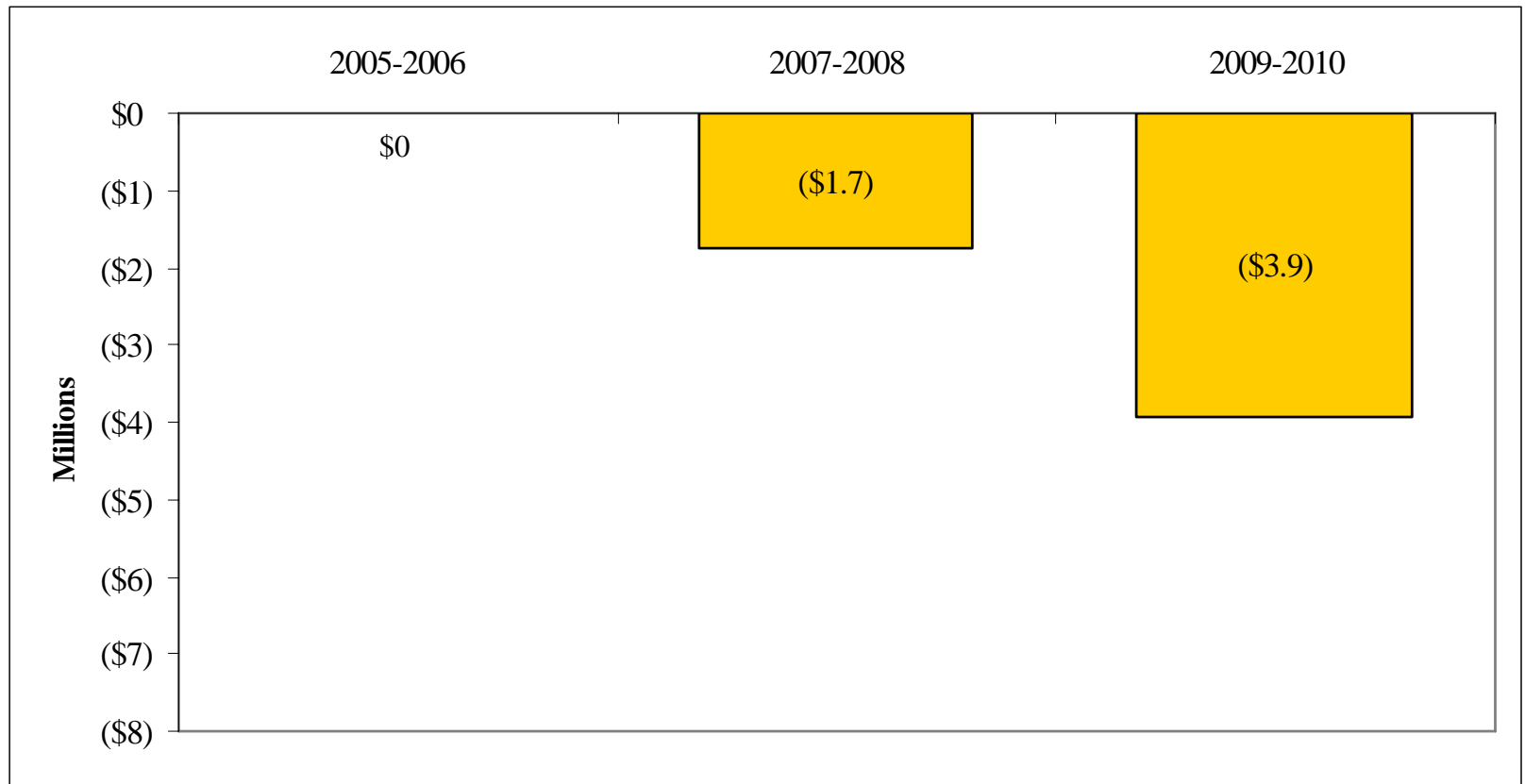
2005-2010 Forecast Results

Three Scenarios

- Scenario 1: Baseline - No new FTEs
- Scenario 2: Additional staffing to maintain current service levels
- Scenario 3: Staffing of FS#17
 - Alternative A: Aid car only
 - Alternative B: Full staffing

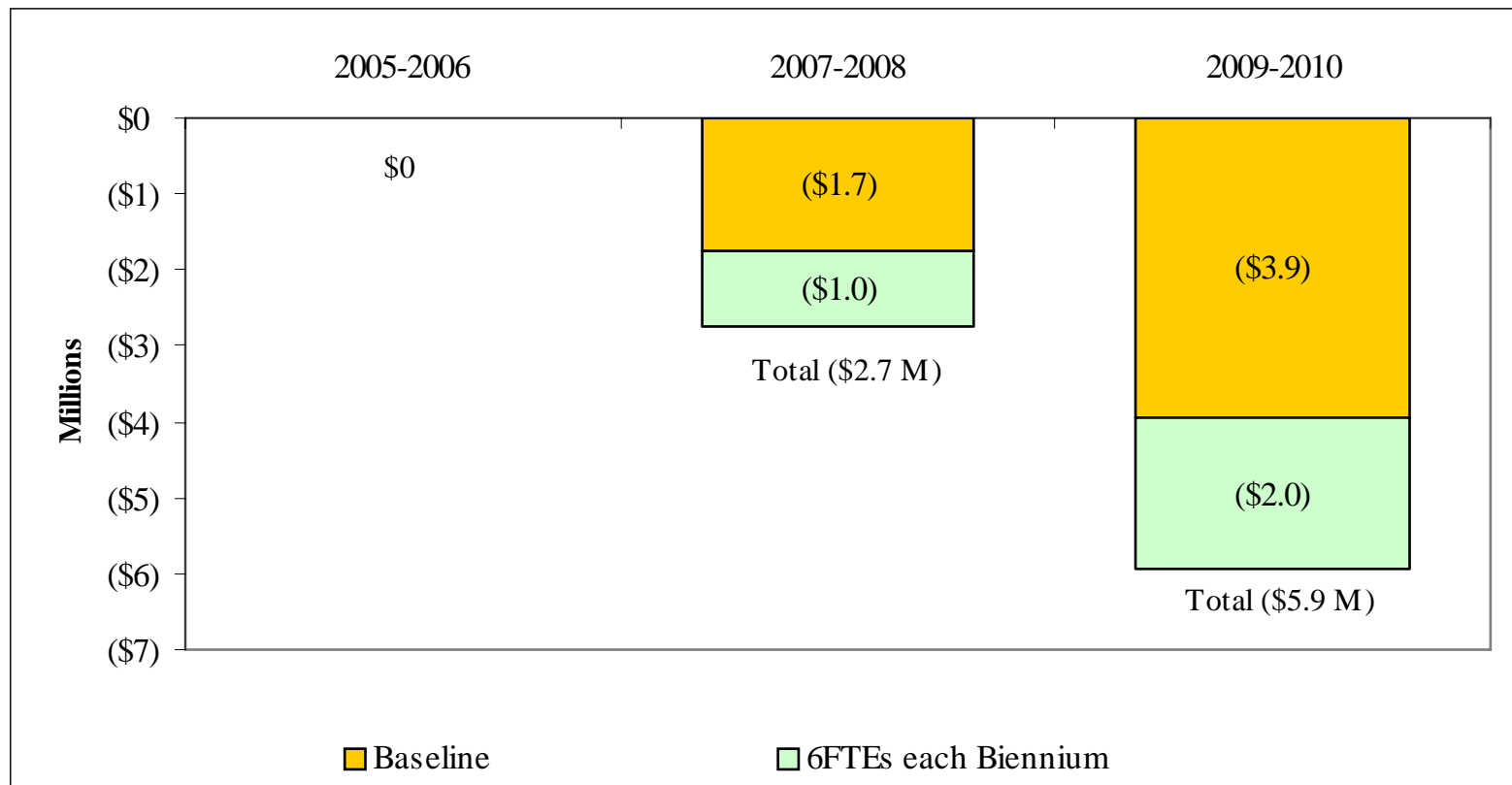
Scenario 1: Baseline Forecast (No New FTEs)

- Deficit result of:
 - Use of economic contingency in 2005-06 (one-time)
 - Cost of maintaining current service levels outpacing revenues



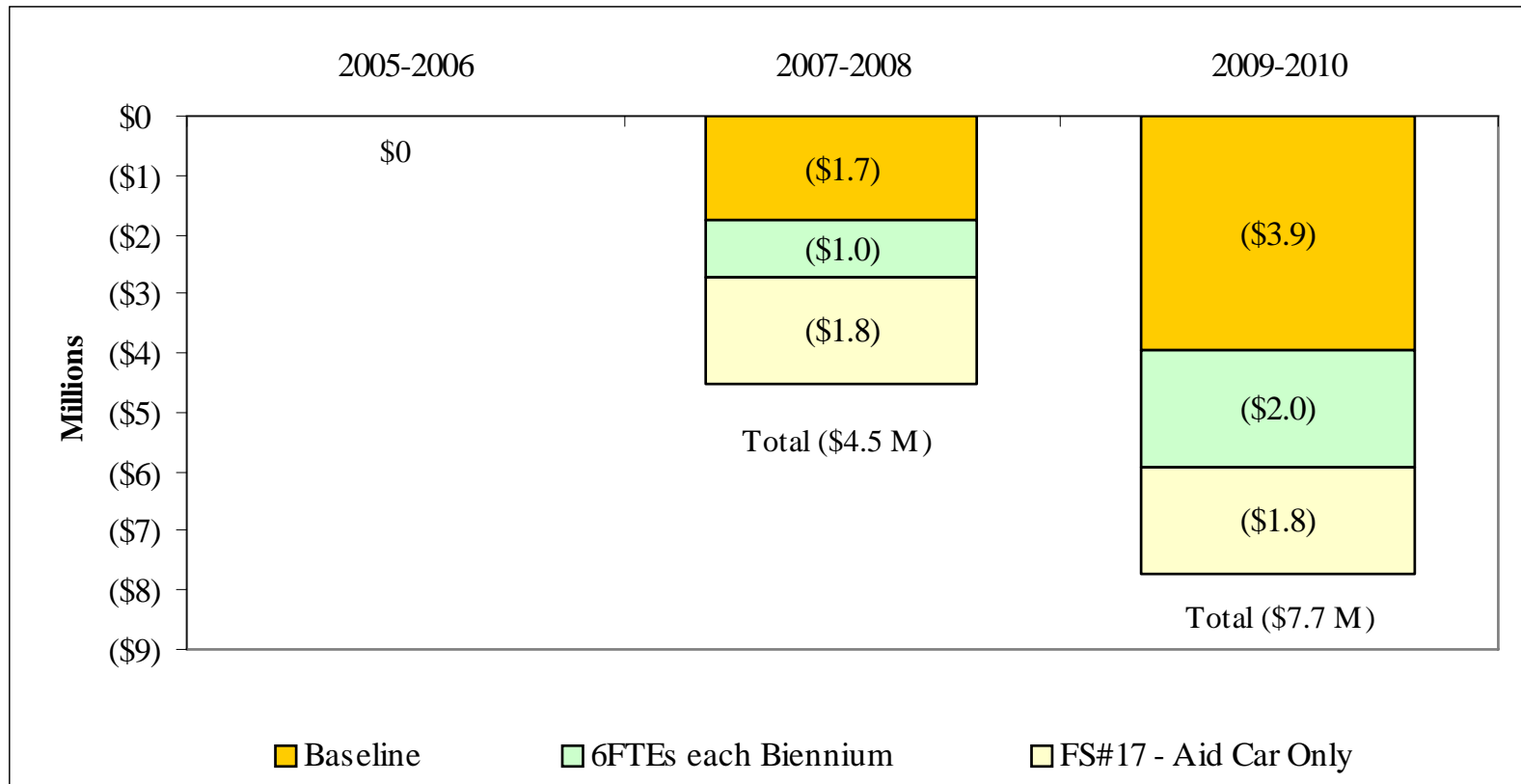
Scenario 2: Additional Staffing to Maintain Current Service Levels

- Add 6FTEs each biennium for a total of 12FTEs over forecast period. Each FTE costs \$160,000/biennium.



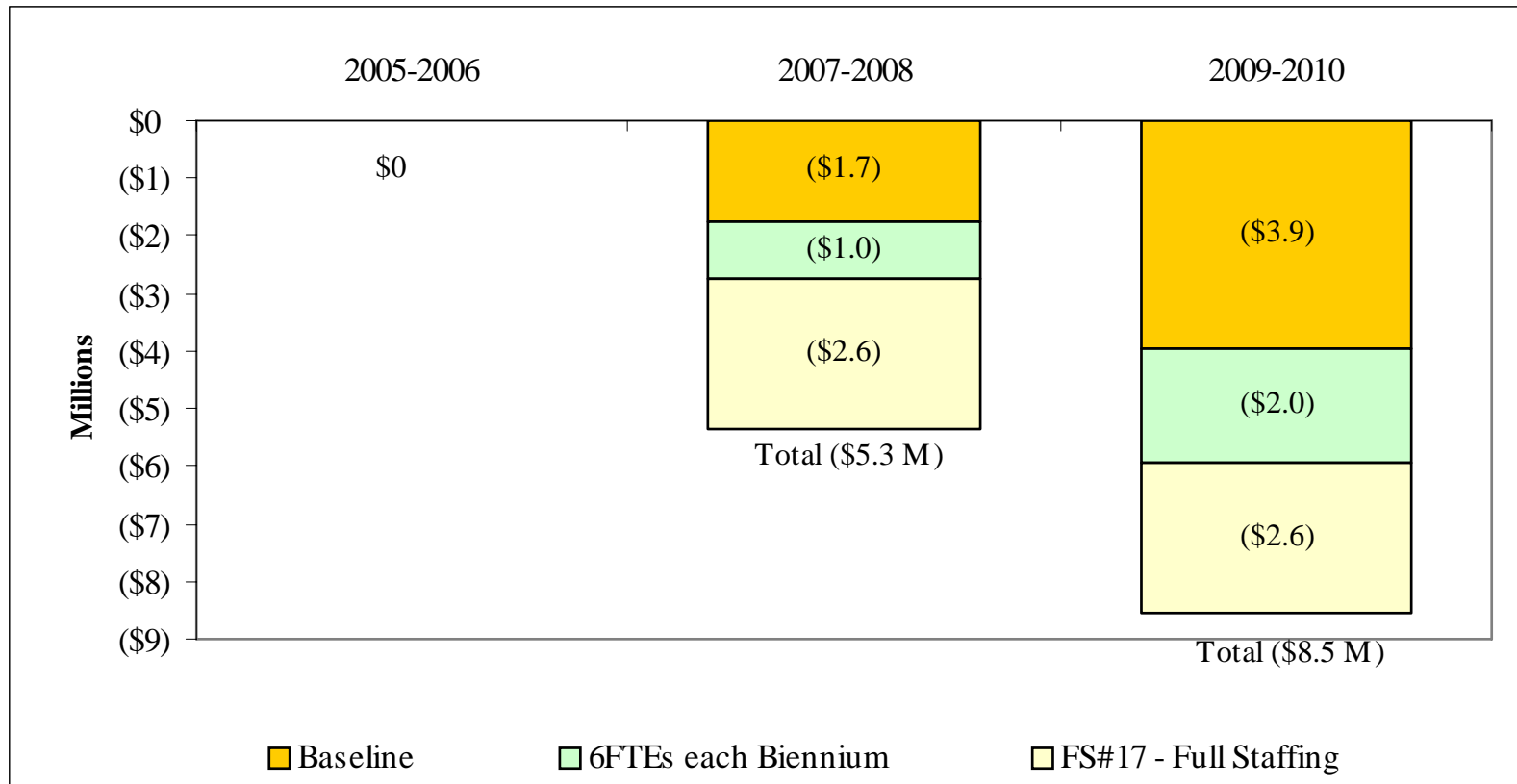
Scenario 3A: Staffing FS #17 - Aid Car Unit Only

- Adding Aid Car only will require additional \$1.8M and 8FTEs



Scenario 3B: Fully Staff FS #17

- Full staffing requires an aid car and an engine company for a total of 12 FTEs.
 - Cost to operate and maintain station: \$2.6M/biennium



Options Available to Close Fiscal Gap

- Proposals Included in Mayor's Preliminary Budget
 - 1% increase in Redmond's portion of property tax that will generate \$110,000 annually or \$220,000 over the biennium
 - Use \$1.5 million of economic contingency. Represents one-time infusion of capital and therefore does not address long term need
 - \$3.5M of new revenue. Choices include:
 - Inflationary adjustment for business license fee (\$2.0M/biennium)
 - Raise utility tax rate from 5.5% to 6% (\$1.4M/biennium)
 - Property Tax
 - Tap Banked Capacity (\$1.4M balance)
 - Ask voters to lift the property tax lid – current rate \$1.31/\$1,000AV; maximum \$3.10/\$1,000AV (\$15.7M in 2006)

Options Available to Close Fiscal Gap

■ Other Options

- ❑ B&O Tax up to .2% on gross receipts (\$35.2M/biennium)
- ❑ Keep operating reserve at 8.5% (one-time savings \$807,000)
- ❑ Reduce levels of service

How To Close Future Fiscal Gap

Interjurisdictional Comps - Utility Tax Rates

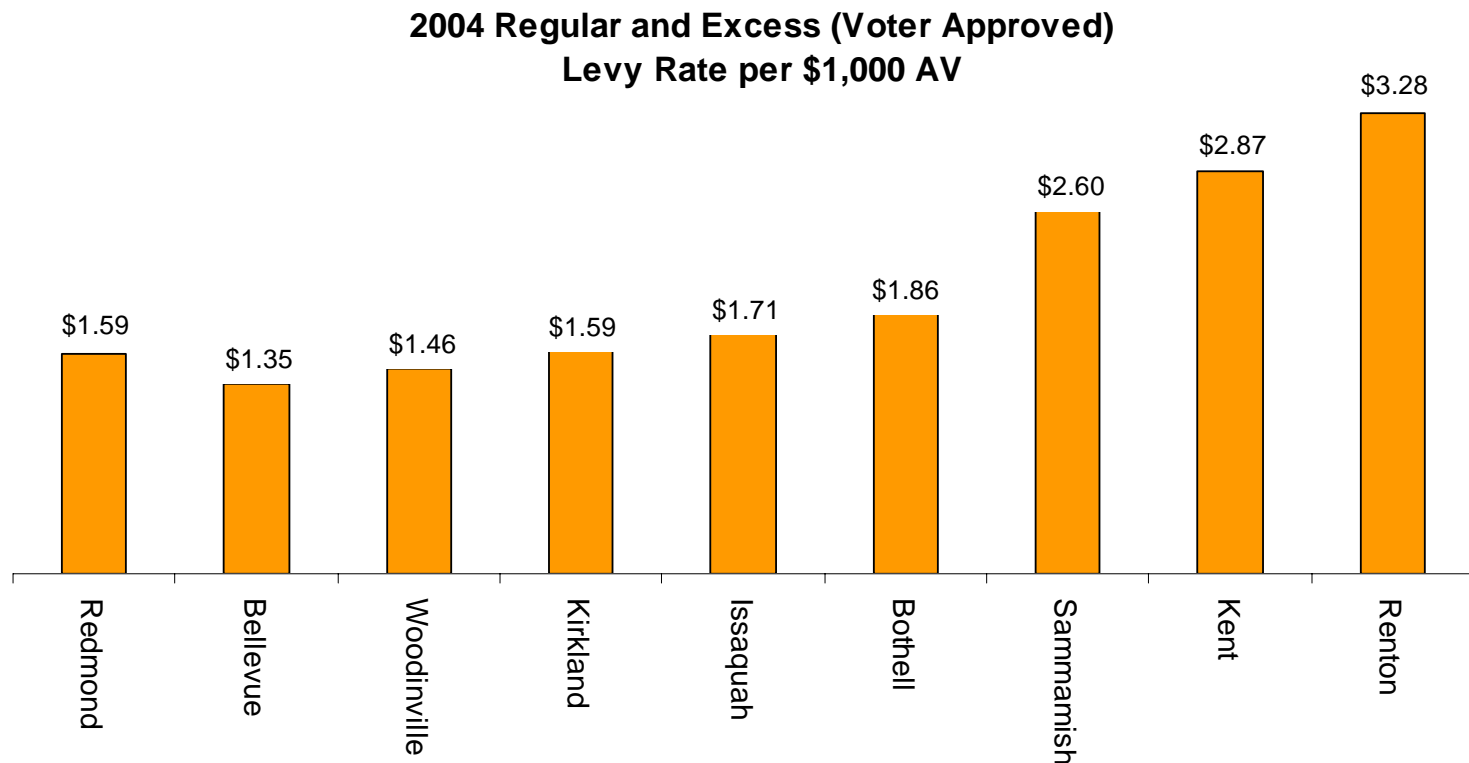
- Redmond is one of a few cities not taxing its own utilities.

	Electricity	Telephone	Natural Gas	City Utilities*
Bothell	6.0%	6.0%	6.0%	5.0%
Issaquah	6.0%	6.0%	6.0%	None
Renton	6.0%	6.0%	6.0%	6.0%
Seattle	6.0%	6.0%	6.0%	10.0%
Tacoma	6.0%	6.0%	6.0%	8.0%
Redmond	5.5%	5.5%	5.5%	none
Federal Way	5.0%	5.0%	5.0%	None
Kirkland	5.0%	5.0%	5.0%	6.5%
Kent	4.8%	4.8%	4.8%	6.0%
Bellevue	4.5%	6.0%	4.5%	4.5%

How To Close Future Fiscal Gap

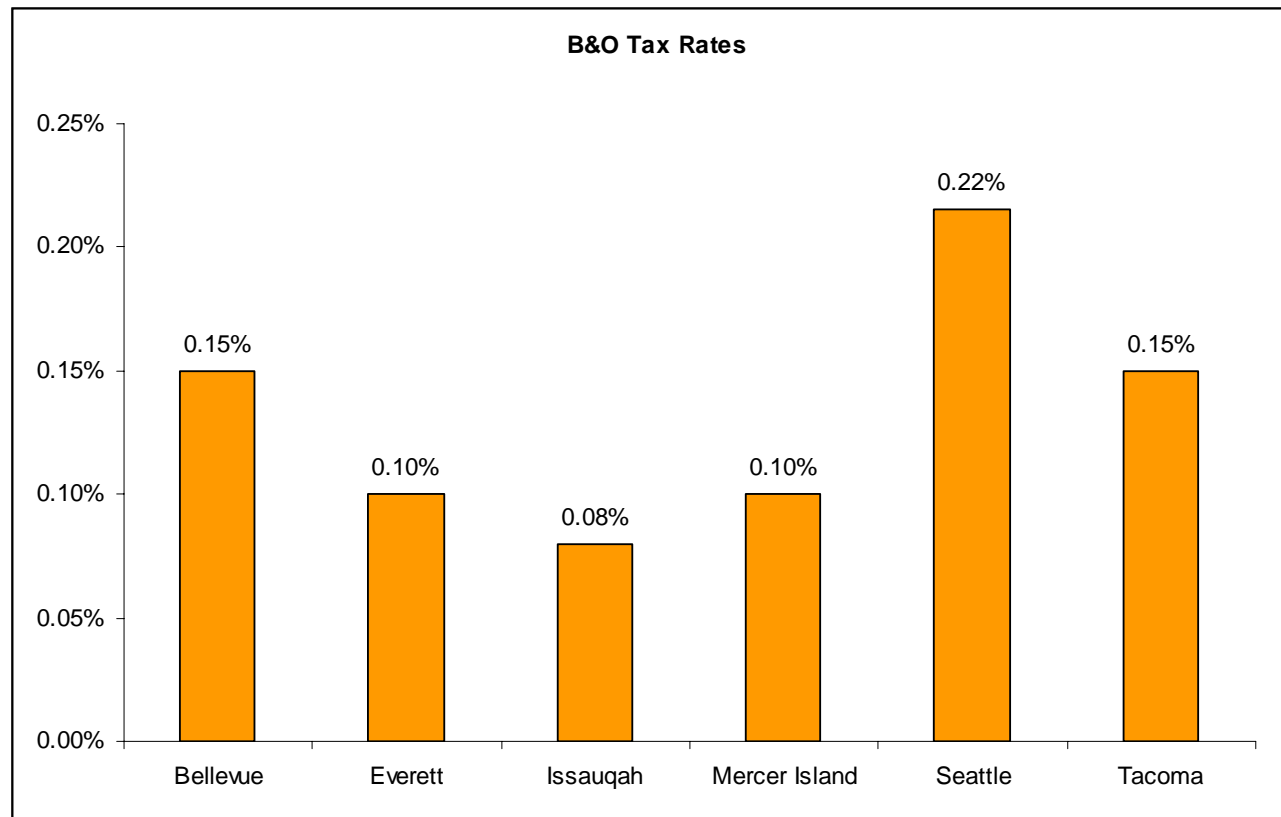
- Interjurisdictional Comps - Property Tax Rates

- Redmond has one of the lowest tax rates of surrounding jurisdictions
 - Only the cities of Bellevue and Woodinville are lower



B&O Tax Comparison Between Cities

- B&O Tax is in effect for 39 cities in the State.
 - Note: Redmond and Renton levy a head tax rather than a tax on gross receipts (Renton \$55.68*/Redmond \$67.50)



* City of Renton head tax is \$.029/employee hour worked. Source: City of Renton Website.

Conclusions

- City at a crossroads. Existing revenues no longer sufficient to pay for current programs and services.
- Mayor's proposal to balance 05/06 Budget includes \$1.5 million of one-time money, a 1% property tax increase, and \$3.5 million of new revenue.
- Even with the new revenues, the City has a fiscal gap beginning in 2007/08.
- Pressure on City finances in future years include:
 - ❑ Cost to maintain existing services
 - ❑ Regional services
 - ❑ Staffing of Station 17
 - ❑ Streamline Sales Tax Legislation
- Developing a sound long-term financial plan is the most critical issue facing the City in the foreseeable future.